DENISON MINES LIMITED

INTERIM REPORT

1978

DENISON MINES LIMITED

To Our Shareholders

This report for the first half of 1978 records the continuing growth in earnings which were at new high levels and further progress in the energy industry projects under way in your Company.

Consolidated net earnings for the six months ended June 30, 1978 of $26,034,000 represent the best first half in the Company's history, almost double the earnings of $13,250,000 in the first half of 1977. On a per share basis, the earnings were equal to $5.70, ahead from $2.90 in the same period last year.

The improvement in net earnings results primarily from the sale of an interest in a coal property, increased deliveries of uranium to Japanese customers and higher net revenues from oil and gas.

Total sales of $121,517,000 during the first six months are up 31% from $92,599,000 during the same period in 1977.

Several developments in the early months of 1978 have placed Denison Mines in an excellent position to achieve long-term stable growth both in the Canadian and international energy industries:

- The Government approval of the long-term uranium contract with Ontario Hydro is the single most significant event, assuring a high level of production to the year 2011 and immediately strengthening the Company's financial position.
- In oil and gas, the Government of Greece has approved detailed development plans for production of the Prinos Oil Field with full-scale production expected to start in 1981.
- A plan of development proposal has been presented to the Government of Spain for the Casablanca oil discovery. A second and separate discovery was made in offshore drilling on the Montanazo D Block.
- Gulf Oil Canada has signed a major joint venture development agreement with the Company under which it acquired a 40% interest in your Company's Belcourt metallurgical coal property in British Columbia. A full-scale feasibility study is under way at a cost of between $10 and $15 million. Preliminary work indicated that the property could support a production level of at least 4 million tonnes a year.

While these and other projects and interests are carried forward, efforts continue on the part of Denison to further expand and grow as one of the important members of the world uranium industry.

Regrettably, Denison has been prevented from proceeding with the acquisition of a substantial interest in an important uranium discovery in northeastern Saskatchewan. This will not deter your Company from continuing to pursue uranium industry opportunities wherever they may be found, within Canada and internationally.

Further details of the activities under way in Denison are contained in the following reports covering each of the Company's principal interests and divisions.

URANIUM

Based on contracts to supply uranium to Ontario, Japanese and Spanish utilities, Denison's projected production over 33 years is just under 200 million pounds of uranium oxide in concentrate form.

Continuing improvement in production from the Elliot Lake operation during the first half of 1978 reflected the full benefits of the expansion program begun in 1973. With the present rate of production at 5,000,000 pounds annually, another round of expansion to a milling capacity of 12,000 tons daily is being undertaken at Elliot Lake to provide the productive capacity to fulfill the requirements of the Ontario Hydro agreement.

A total of 2,469,000 pounds of U_3O_8 was produced in the first half of 1978, an increase of 20% from 2,052,000 pounds produced in the first half of 1977. The number of tons milled in the first half of 1978, 1,245,000 tons, also increased by 20% from the 1,037,000 tons milled in the year earlier period.

Skilled and experienced personnel, necessary for the future expansion program, continue to be actively recruited. Housing remains an integral prerequisite to reach planned manpower objectives.

Collective Bargaining Agreements, with the First-Line Supervisory Unit and International Union of Operating Engineers, were signed earlier this year. Preparation is under way for contract negotiations with the Production and Maintenance Unit, and the Office and Technical Unit, of the United Steelworkers of America.

OIL & GAS

Income from oil and gas operations continues to grow as a result of price increases, although reduced demand has resulted in temporary declines in production in western Canada. A further rise of $1 a barrel in selling price became effective July 1 and governments are discussing a gas price increase which usually follows oil price increases.

Greece – The development plan for the Prinos Field in which Denison has a 68.75% interest was approved by the Greek government. Engineering and construction assistance contracts have been issued to two divisions of Fluor Corporation. Design and procurement of equipment are actively moving forward. It is expected the first drilling platform will be installed in February/March 1979.

Drilling is in progress in the South Kavala area seven miles south of the Prinos Field. Gas and condensate production established earlier in South Kavala Well No. 1 has been extended eastward by South Kavala Well No. 4. South Kavala Well No. 3 which was suspended temporarily due to mechanical problems will now be deviated to further explore the South Kavala structure. Initial reports from testing of South Kavala Well No. 4 indicated a flow rate, on a restricted choke, of about 20 MMCF/day of gas plus 600 bbls/day of high gravity condensate. No sulphur compounds were indicated during the test.

Two exploratory wells that were drilled west of the Island of Thassos were abandoned.

Spain – A plan for development of production from the Casablanca field discovered in the Mediterranean Sea has been submitted to the Spanish government authorities. Application for the required exploitation permit follows recovery of over 1.5 million barrels of oil in production testing of the Casablanca No. 1A well. The Casablanca field lies partly on the Casablanca permit and partly on the Montanazo "D" permit.

Further drilling on this Montanazo "D" permit has resulted in discovery of oil in a separate pool lying between the MD1 well and a discovery on the "C" permit made in the MC1 well. This latest find tested at a rate of 3,000 barrels daily.

COAL

The coal division is steadily increasing its activities in anticipation of eventual improvement in the economies of major industrial nations. This would assist recovery and resumption of growth in the steel industry.

Increasing emphasis is being placed on marketing, especially of metallurgical coal from Quintette which would be used by the steel industry. Additional expenditures are planned this year to further feasibility and planning studies on the Belcourt and Saxon properties.

Assisting future development of the northeastern B.C. metallurgical coal deposits is the decision by the Federal government to spend $16.3 million in installation of basic services for a coal-grain port on Ridley Island near Prince Rupert. Construction is expected to start early in 1979.

Recent developments on the coal projects managed by Denison and in which your Company participates are set out below.

Quintette – Economics have been improved significantly through a new mine plan based on a major open pit development.

Commercial discussions regarding coking coal have been held with the Romanian, Korean and Japanese steel industries and further talks are planned.

Saxon – Based on results of the 1977 detailed feasibility study, a program of field exploration is being carried out this year to provide more detailed geological information on the portion of the project planned for underground mining.

The feasibility study contemplates production of 4 million tonnes annually for 20 years from a combination of surface and underground mining.

The Ruhrkohle Group which now holds a 30% interest has the right to acquire up to a 50% interest in Saxon Coal Limited.

Belcourt – In April, 1978 an agreement was signed with Gulf Oil Canada Limited under which Gulf acquired a 40% interest and which provides for a full-scale exploration and feasibility study at a cost of between $10 and $15 million commencing in 1978. The agreement has been approved under the Foreign Investment Review Act.

Alberta – The Coalspur properties are estimated to contain in the order of 500 million tons of good quality bituminous thermal coal. Markets for this type of coal are developing in the Pacific Rim countries and Europe. Other potential markets include Eastern Canada and the Alberta thermal power generating industry. Recent visits to Korea and Japan confirmed that planning is under way for major expansion of coal-fired thermal generating capacity in these countries which would require a major build-up of thermal coal deliveries during the 1980's.

EXPLORATION

Denison and its wholly owned subsidiary, Denmontan Resources Limited, have increased their holdings of mineral properties in Canada so that they now exceed 900,000 acres of which approximately 858,000 acres are in the Athabasca uranium area of Saskatchewan. Other holdings are in Manitoba, Ontario, Nova Scotia, Northwest Territories and British Columbia.

All properties are being or are to be explored under joint venture agreements. The program for 1978, presently under way, calls for exploration expenditures three times those of 1977. Joint venture associates include subsidiaries of Mitsui and Company Limited and

Mitsui Mining and Smelting Company Limited, Mega Montan G.M.B.H., Exploram Minerals Limited, Conwest Exploration Company Limited and Western Mines Limited.

In Saskatchewan, airborne electromagnetic, magnetic and radiometric surveys have been completed and seven parties are conducting ground surveys aimed at finding drilling targets. Drilling has started on one property in the Highrock Lake area and will commence on other properties in the near future.

Two parties are exploring in the Northwest Territories, one in northwestern Ontario and one in Nova Scotia.

In the U.S. drilling is under way on the LeBar-Hall property in the Powder River Basin of Wyoming. Preparation has been made for drilling properties in the Spokane Indian Reservation in the State of Washington in the vicinity of the Midnight Uranium Mine.

LAKE ONTARIO CEMENT LIMITED

Both sales and earnings increased in the first half of 1978 for this 54% owned subsidiary – a major producer of cement and concrete products serving the Great Lakes' markets.

Consolidated sales for the six-month period ended June 30, 1978, were $32,012,000, an increase of 22.8% over the 1977 first half sales of $26,070,000. Consolidated net earnings were $171,000 compared to $92,000 for the same period last year. The increase in sales arose primarily from the inclusion of the results of Aetna Cement Corporation which became a U.S. subsidiary of Lake Ontario in April 1977.

After an unusually slow start because of the severe winter, sales and earnings have rebounded well with strengthening in cement demand taking place, particularly in Lake Ontario's U.S. markets. While the first half of the year is typically a break-even period, the outlook for the last half of the year is favourable and year-end results are expected to exceed those of the year previous.

IN MEMORIAM

It is with the deepest sorrow that we report the passing of Mr. John C. Puhky who was so intimately associated with the development of your Company and who contributed so much to its success.

Mr. Puhky was well known to many shareholders, joining Denison in 1954 as Secretary-Treasurer and remaining a Director until his death. His cheerfulness and good humour and his optimism in the face of adversities will be long remembered by all who knew him.

On behalf of the Board of Directors

STEPHEN B. ROMAN
Chairman of the Board

JOHN KOSTUIK
President

Toronto, Ontario.
July 14, 1978.

DENISON MINES LIMITED

Summary of Consolidated Earnings	Six Months Ended June 30 1978	1977
Gross revenue		
Minerals (uranium, yttrium, oil and gas)	$ 89,505,000	$ 66,529,000
Cement and cement products	32,012,000	26,070,000
	121,517,000	92,599,000
Production, exploration and administration costs	81,601,000	66,780,000
	39,916,000	25,819,000
Revenue from investments	18,274,000	3,649,000
Earnings before items shown below	58,190,000	29,468,000
Depreciation, depletion and amortization	5,137,000	4,076,000
Interest on long-term debt	1,613,000	796,000
	6,750,000	4,872,000
Earnings before taxes	51,440,000	24,596,000
Income and mining taxes	25,339,000	11,299,000
Earnings before minority interest	26,101,000	13,297,000
Minority interest	67,000	47,000
Net earnings for the period	$ 26,034,000	$ 13,250,000
Net earnings per share	$ 5.70	$ 2.90

Consolidated Statement of Changes in Financial Position	1978	1977
SOURCES OF WORKING CAPITAL		
Current operations	$ 51,738,000	$ 29,596,000
Increase in advances on concentrate sales contracts	42,350,000	–
Issue of mortgages primarily on construction and purchase of Elliot Lake housing units	9,418,000	329,000
Realization of long-term investments	310,000	925,000
Other	560,000	–
	104,376,000	30,850,000
USES OF WORKING CAPITAL		
Additions of fixed assets	25,836,000	35,147,000
Increase in long-term investments	11,875,000	795,000
Dividends	5,482,000	4,568,000
Reduction of long-term debt	78,000	250,000
Dividends to minority shareholders of Lake Ontario Cement Limited	199,000	199,000
Reduction of advances on concentrate sales contracts	–	1,036,000
	43,470,000	41,995,000
Increase (decrease) in working capital	$ 60,906,000	$(11,145,000)

NOTE: Revenue from investments includes the gain to date of $13,500,000 under an agreement for sale of an interest in a coal property. The 1977 comparative figure includes a gain on sale of shares in coal companies of $4,014,000.

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